

WASHINGTON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

WASHINGTON COMMUNITY SCHOOL DISTRICT  
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WASHINGTON COMMUNITY SCHOOL DISTRICT  
OFFICIALS  
June 30, 2004

**Board of Education**

(Before September, 2003 Election)

Michael D. Moore	Board President	2005
Joe Redlinger	Board Member	2005
Tim Orris	Board Member	2003
Julie Peshkin	Board Member	2003
Dave Sorrell	Board Member	2005
Cathy Rich	Board Member	2004
Rachelle LaMaster	Board Member	2004

(After September, 2003 Election)

Julie Peshkin	Board President	2006
Joe Redlinger	Board Member	2005
Tim Orris	Board Member	2006
Michael D. Moore	Board Member	2005
Dave Sorrell	Board Member	2005
Cathy Rich	Board Member	2004
Jim Gorham	Board Member	2004

**School Officials**

Dave Schmitt	Superintendent	2004
Kevin Posekany	District Secretary	2004
Kevin Caldwell	District Treasurer	2004
Brian Gruhn	Attorney	2004

# KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100  
Muscatine, Iowa 52761  
563-264-1385

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Washington Community School District  
Washington, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Washington Community School District, Washington, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Washington Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my reports dated August 13, 2004 on my consideration of Washington Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have

applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC  
August 13, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Washington Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$13,407,796 in fiscal 2003 to \$13,401,652 in fiscal 2004, while General Fund expenditures increased from \$12,706,810 in fiscal 2003 to \$13,411,661 in fiscal 2004. The District's General Fund balance decreased from \$1,170,442 in fiscal 2003 to \$1,118,656 in fiscal 2004, a 4% decrease.
- The main reason for the decrease in revenue was in property taxes. Property taxes decreased due to the reduction of assessed valuation of \$5,724,722 or 1.7%. State aid increased 2.3% primarily through the funding formula. Federal aid increased 9.1% due to additional grants.
- The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Washington Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Washington Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Washington Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

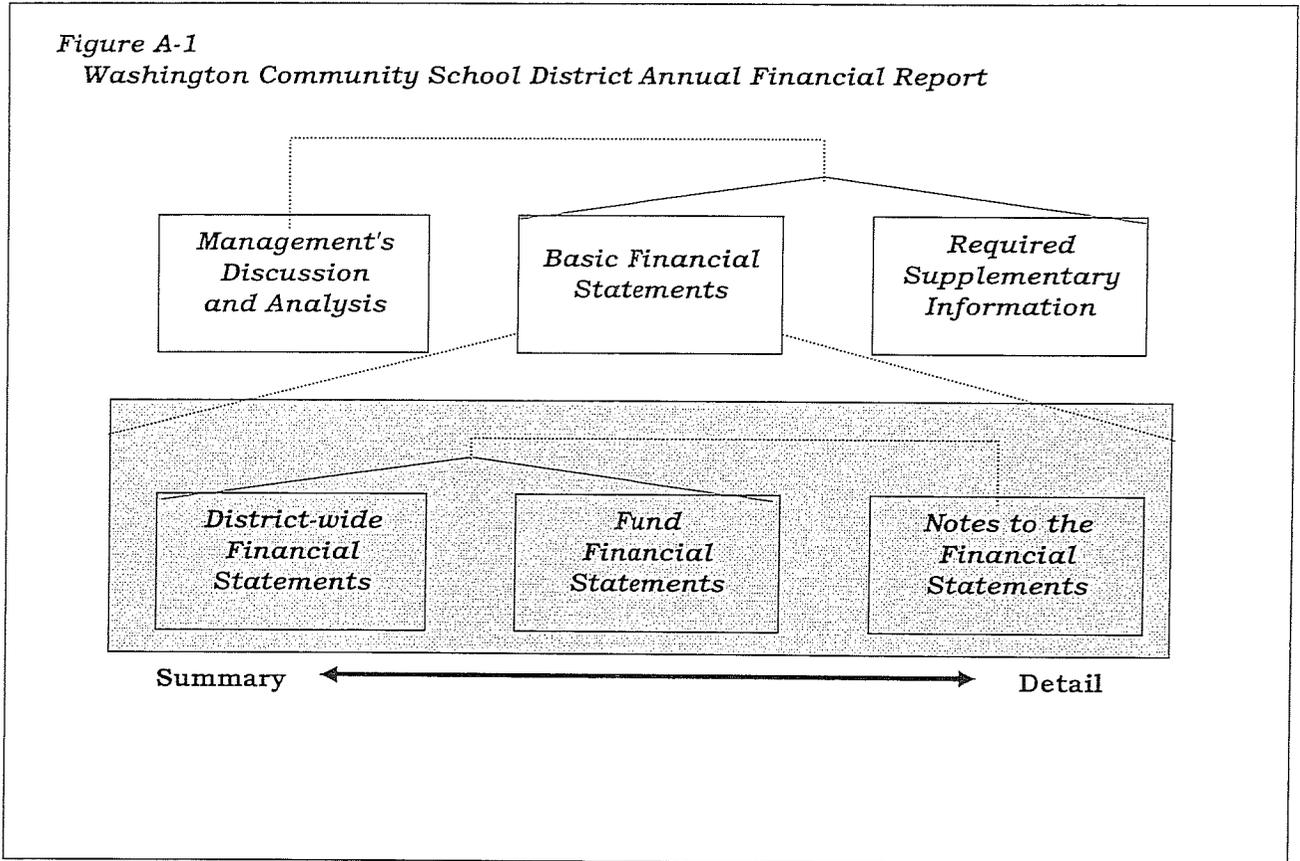


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Funds – The District accounts for outside donations for scholarships for individual students in these funds.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Current and other assets	\$ 9,515,381	\$ 11,091,274	\$ 65,495	\$ 89,306	\$ 9,580,876	\$ 11,180,580	-14.31%
Capital assets	<u>4,182,786</u>	<u>2,952,638</u>	<u>32,952</u>	<u>34,982</u>	<u>4,215,738</u>	<u>2,987,620</u>	41.11%
Total assets	<u>13,698,167</u>	<u>14,043,912</u>	<u>98,447</u>	<u>124,288</u>	<u>13,796,614</u>	<u>14,168,200</u>	-2.62%
Long-term obligations	1,338,909	1,411,315	-	-	1,338,909	1,411,315	0.00%
Other liabilities	<u>7,411,882</u>	<u>8,526,423</u>	<u>28,956</u>	<u>33,589</u>	<u>7,440,838</u>	<u>8,560,012</u>	-13.07%
Total liabilities	<u>8,750,791</u>	<u>9,937,738</u>	<u>28,956</u>	<u>33,589</u>	<u>8,779,747</u>	<u>9,971,327</u>	-11.95%
Net assets							
Invested in capital assets, net of related debt	3,080,286	1,747,638	32,952	34,982	3,113,238	1,782,620	74.64%
Restricted	751,513	1,462,461	-	-	751,513	1,462,461	-48.61%
Unrestricted	<u>1,115,577</u>	<u>896,075</u>	<u>36,539</u>	<u>55,717</u>	<u>1,152,116</u>	<u>951,792</u>	21.05%
Total net assets	<u>\$ 4,947,376</u>	<u>\$ 4,106,174</u>	<u>\$ 69,491</u>	<u>\$ 90,699</u>	<u>\$ 5,016,867</u>	<u>\$ 4,196,873</u>	19.54%

The District's combined net assets increased by approximately 19.5%, or approximately \$819,994 (Exhibit B), over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$710,948, or 48.6% over the prior year. The decrease was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$200,324, or 21.0%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.  
Figure A-4

	Change in Net Assets		
	Governmental Activities	Business-type Activities	Total School District
Revenues			
Program revenues			
Charges for service and sales	\$ 869,722	\$ 272,003	\$ 1,141,725
Operating grants, contributions and restricted interest	2,198,490	283,371	2,481,861
Capital grants, contributions and restricted interest	107,250	-	107,250
General revenues			
Property tax	4,882,723	-	4,882,723
Unrestricted state grants	6,410,275	-	6,410,275
Unrestricted investment earnings	23,245	789	24,034
Other	<u>10,036</u>	<u>-</u>	<u>10,036</u>
Total revenues	<u>14,501,741</u>	<u>556,163</u>	<u>15,057,904</u>
Program expenses			
Governmental activities			
Instruction	8,329,071	-	8,329,071
Support services	4,906,048	-	4,906,048
Non-instructional programs	-	577,371	577,371
Other expenses	<u>1,227,552</u>	<u>-</u>	<u>1,227,552</u>
Total expenses	<u>14,462,671</u>	<u>577,371</u>	<u>15,040,042</u>
Change in net assets	<u>\$ 39,070</u>	<u>\$ (21,208)</u>	<u>\$ 17,862</u>

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$14,501,741 and expenses were \$14,462,671. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 8,329,071	\$ 5,797,368
Support services	4,906,048	4,878,758
Other expenses	<u>1,227,552</u>	<u>611,083</u>
Total expenses	<u>\$ 14,462,671</u>	<u>\$ 11,287,209</u>

- The cost financed by users of the District's programs was \$869,722.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,305,740.
- The net cost of governmental activities was financed with \$4,882,723 in property taxes and \$6,410,275 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$556,163 and expenses were \$577,371. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District did not increase meal prices. The District does consider meal increases only when deemed necessary to meet the obligations of the School Nutrition Fund.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, Washington Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,106,578, well below last year's ending fund balances of \$2,566,795. This decrease was due in part to maintaining revenues through an increased cash reserve levy and instructional support levy which were above the negotiated salary and benefits settlement and the prior year reduction in state aid and existing expenditure commitments of the District.

### **Governmental Fund Highlights**

- The District's growth of the General Fund financial position is the product of several factors. Growth during the year in revenues, as a whole, more than offset the District's increase in General Fund expenditures allowing the District to grow carryover fund balances to meet its financial obligations during the coming years.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$90,699 at June 30, 2003 to \$69,491 at June 30, 2004, representing a decrease of approximately 23%. The district reviews this fund annually and makes adjustments to the lunch fees as necessary.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Washington Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the elementary building capital project activity.

The District's receipts were \$23,384 more than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and support services functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2004, the District had invested \$4,215,738, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. This represents a net increase of 11% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$452,424.

The original cost of the District's capital assets was \$6,973,209. Governmental funds account for \$6,893,901, with the remainder of \$79,308 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

## Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Land	\$ 544,857	\$ 544,857	\$ -	\$ -	\$ 544,857	\$ 544,857	0.00%
Land improvements	808,354	808,354	-	-	808,354	808,354	0.00%
Buildings and improvements	1,829,537	1,647,388	-	-	1,829,537	1,647,388	11.06%
Furniture and equipment	<u>1,000,038</u>	<u>753,669</u>	<u>34,982</u>	<u>32,952</u>	<u>1,035,020</u>	<u>786,621</u>	31.58%
Totals	<u>\$4,182,786</u>	<u>\$3,754,268</u>	<u>\$34,982</u>	<u>\$32,952</u>	<u>\$4,217,768</u>	<u>\$3,787,220</u>	11.37%

**Long-Term Debt**

At June 30, 2004, the District had \$1,338,909 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 5% from last year. Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

At June 30, 2004, the District had \$102,500 in general obligation debt outstanding. This represents a decrease of 48.2% from last year. More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

In September 2001, the District's voters re-authorized the PPEL levy at \$1.00. This generates approximately \$330,000 per year for facility needs. A local option sales tax was approved in May 2004 which will also fund facility improvements.

The District also has a Qualified Zone Academy Bond (QZAB) for \$1,000,000 which assists in cash flows for PPEL expenditures. This bond is a no interest bond with \$86,130 per year going into an escrow account for 10 years to repay the bond.

The District annually employs an early retirement policy which must be re-authorized by the Board. Currently, the District has \$236,409 in early retirement obligations.

Figure A-7

## Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
QZAB bonds	\$ 1,000,000	\$ 1,000,000	0.00%
Notes payable	102,500	205,000	-50.00%
Early retirement	<u>236,409</u>	<u>206,315</u>	14.59%
Total	<u>\$ 1,338,909</u>	<u>\$ 1,411,315</u>	-5.13%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced stable enrollment for the past several years, the District expects a slight increase in enrollment due to smaller graduating classes and then a decline with several larger graduating classes.
- The District has evaluated the condition and use of its facilities and has determined to use a blended financing approach to make major additions and improvements. The management team will be recommending use of the sales tax revenue, some PPEL revenue with added income surtax and additional property tax pending a referendum. Estimated costs are not available at this time.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin Posekany, District Secretary and Business Manager, Washington Community School District, PO Box 926, Washington, Iowa, 52353.

## Basic Financial Statements

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2004

Exhibit A

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents			
ISCAP	\$ 1,662,803	\$ -	\$ 1,662,803
Cash held by fiscal agent	175,098	-	175,098
Other	3,002,045	46,836	3,048,881
Receivables			
Property tax			
Delinquent	66,046	-	66,046
Succeeding year	4,324,730	-	4,324,730
Accounts receivable	88	-	88
Accrued interest - ISCAP	3,325	-	3,325
Due from other funds	25,000	-	25,000
Due from other governments	256,246	28,733	284,979
Inventories	-	14,926	14,926
Capital assets, net of accumulated depreciation	4,182,786	32,952	4,215,738
Total assets	<u>13,698,167</u>	<u>123,447</u>	<u>13,821,614</u>
<b>LIABILITIES</b>			
Accounts payable	67,779	-	67,779
Salaries and benefits payable	1,340,819	28,956	1,369,775
Accrued interest payable	3,079	-	3,079
Due to other funds	-	25,000	25,000
ISCAP warrants payable	1,653,000	-	1,653,000
ISCAP accrued interest payable	5,041	-	5,041
ISCAP unamortized premium	17,434	-	17,434
Deferred revenue - succeeding year property tax	4,324,730	-	4,324,730
Long-term liabilities			
Portion due within one year			
Early retirement	120,016	-	120,016
Notes payable	102,500	-	102,500
Portion due after one year			
Early retirement	116,393	-	116,393
Bonds payable	1,000,000	-	1,000,000
Total liabilities	<u>8,750,791</u>	<u>53,956</u>	<u>8,804,747</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2004

Exhibit A

	Governmental Activities	Business-type Activities	Total
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 3,080,286	\$ 32,952	\$ 3,113,238
Restricted for			
Management levy	85,044	-	85,044
Physical plant and equipment levy	335,020	-	335,020
Other special revenue purposes	156,351	-	156,351
Debt services - QZAB escrow	175,098	-	175,098
Unrestricted	1,115,577	36,539	1,152,116
Total net assets	\$ 4,947,376	\$ 69,491	\$ 5,016,867

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 5,589,234	\$ 431,803	\$ 848,767	\$ -	\$ (4,308,664)	\$ -	\$ (4,308,664)
Special instruction	1,638,624	93,343	321,841	-	(1,223,440)	-	(1,223,440)
Other instruction	<u>1,101,213</u>	<u>334,658</u>	<u>501,291</u>	<u>-</u>	<u>(265,264)</u>	<u>-</u>	<u>(265,264)</u>
	<u>8,329,071</u>	<u>859,804</u>	<u>1,671,899</u>	<u>-</u>	<u>(5,797,368)</u>	<u>-</u>	<u>(5,797,368)</u>
Support services							
Student services	1,385,862	-	-	-	(1,385,862)	-	(1,385,862)
Instructional staff services	1,084,977	-	-	-	(1,084,977)	-	(1,084,977)
Administration services	1,206,686	-	-	-	(1,206,686)	-	(1,206,686)
Operation and maintenance of plant services	735,780	9,918	-	-	(725,862)	-	(725,862)
Transportation services	<u>492,743</u>	<u>-</u>	<u>17,372</u>	<u>-</u>	<u>(475,371)</u>	<u>-</u>	<u>(475,371)</u>
	<u>4,906,048</u>	<u>9,918</u>	<u>17,372</u>	<u>-</u>	<u>(4,878,758)</u>	<u>-</u>	<u>(4,878,758)</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures							
Facilities acquisition	563,676	-	-	107,250	(456,426)	-	(456,426)
Long-term debt interest	9,980	-	-	-	(9,980)	-	(9,980)
AEA flowthrough	509,219	-	509,219	-	-	-	-
Depreciation (unallocated)*	<u>144,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(144,677)</u>	<u>-</u>	<u>(144,677)</u>
	<u>1,227,552</u>	<u>-</u>	<u>509,219</u>	<u>107,250</u>	<u>(611,083)</u>	<u>-</u>	<u>(611,083)</u>
Total governmental activities	<u>14,462,671</u>	<u>869,722</u>	<u>2,198,490</u>	<u>107,250</u>	<u>(11,287,209)</u>	<u>-</u>	<u>(11,287,209)</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
Business-type activities							
Non-instructional programs							
Food service operations	\$ 577,371	\$ 272,003	\$ 283,371	\$ -	\$ -	\$(21,997)	\$ (21,997)
Total	<u>\$ 15,040,042</u>	<u>\$ 1,141,725</u>	<u>\$ 2,481,861</u>	<u>\$ 107,250</u>	<u>\$(11,287,209)</u>	<u>\$(21,997)</u>	<u>\$(11,309,206)</u>
 <b>General Revenues</b>							
Property tax levied for							
General purposes					4,445,916	-	4,445,916
Capital outlay					436,807	-	436,807
Unrestricted state grants					6,410,275	-	6,410,275
Unrestricted investment earnings					23,245	789	24,034
Gain on sale of equipment					1,503	-	1,503
Other					8,533	-	8,533
Total general revenues					<u>11,326,279</u>	<u>789</u>	<u>11,327,068</u>
 Change in net assets					39,070	(21,208)	17,862
Net assets, beginning of year, as restated					4,908,306	90,699	4,999,005
Net assets, end of year					<u>\$ 4,947,376</u>	<u>\$ 69,491</u>	<u>\$ 5,016,867</u>

\* This amount excludes the depreciatiotn that is included in the direct expenses of the various programs.

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds  
June 30, 2004

	<u>General</u>	Nonmajor Special Revenue <u>Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP	\$ 1,662,803	\$ -	\$ 1,662,803
Cash held by fiscal agent	-	175,098	175,098
Other	2,198,587	803,458	3,002,045
Receivables			
Property tax			
Delinquent	56,680	9,366	66,046
Succeeding year	3,699,869	624,861	4,324,730
Accounts receivable	88	-	88
Accrued interest			
ISCAP	3,325	-	3,325
Due from other funds	25,000	-	25,000
Due from other governments	256,246	-	256,246
Total assets	<u>\$ 7,902,598</u>	<u>\$ 1,612,783</u>	<u>\$ 9,515,381</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 67,779	\$ -	\$ 67,779
Salaries and benefits payable	1,340,819	-	1,340,819
ISCAP warrants payable	1,653,000	-	1,653,000
ISCAP accrued interest payable	5,041	-	5,041
ISCAP unamortized premium	17,434	-	17,434
Deferred revenue			
Succeeding year property tax	3,699,869	624,861	4,324,730
Total liabilities	<u>6,783,942</u>	<u>624,861</u>	<u>7,408,803</u>
Fund balances			
Reserved for			
State grants	8,558	-	8,558
Talented and gifted program	18,392	-	18,392
Debt payment	-	175,098	175,098
Unreserved, undesignated	1,091,706	812,824	1,904,530
Total fund balances	<u>1,118,656</u>	<u>987,922</u>	<u>2,106,578</u>
Total liabilities and fund balances	<u>\$ 7,902,598</u>	<u>\$ 1,612,783</u>	<u>\$ 9,515,381</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$2,106,578
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,182,786
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,079)
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,338,909)</u>
Net assets of governmental activities	<u>\$4,947,376</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 4,244,156	\$ 634,342	\$ 4,878,498
Tuition	422,320	-	422,320
Other	114,521	356,393	470,914
State sources	7,394,126	601	7,394,727
Federal sources	1,226,529	107,250	1,333,779
Total revenues	<u>13,401,652</u>	<u>1,098,586</u>	<u>14,500,238</u>
Expenditures			
Current			
Instruction			
Regular instruction	5,487,202	146,054	5,633,256
Special instruction	1,661,340	-	1,661,340
Other instruction	777,473	326,211	1,103,684
	<u>7,926,015</u>	<u>472,265</u>	<u>8,398,280</u>
Support services			
Student services	1,356,971	-	1,356,971
Instructional staff services	1,054,190	-	1,054,190
Administration services	1,166,675	43,220	1,209,895
Operation and maintenance of plant services	1,017,840	21,987	1,039,827
Transportation services	380,751	338,306	719,057
	<u>4,976,427</u>	<u>403,513</u>	<u>5,379,940</u>
Other expenditures			
Facilities acquisition	-	563,676	563,676
Long-term debt			
Principal	-	102,500	102,500
Interest and fiscal charges	-	8,343	8,343
AEA flowthrough	509,219	-	509,219
	<u>509,219</u>	<u>674,519</u>	<u>1,183,738</u>
Total expenditures	<u>13,411,661</u>	<u>1,550,297</u>	<u>14,961,958</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,009)</u>	<u>(451,711)</u>	<u>(461,720)</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Other financing sources (uses)			
Sale of equipment and materials	\$ 1,503	\$ -	\$ 1,503
Interfund operating transfers	<u>(43,280)</u>	<u>43,280</u>	<u>-</u>
Total other financing sources (uses)	<u>(41,777)</u>	<u>43,280</u>	<u>1,503</u>
Net change in fund balances	(51,786)	(408,431)	(460,217)
Fund balance, beginning of year	<u>1,170,442</u>	<u>1,396,353</u>	<u>2,566,795</u>
Fund balance, end of year	<u>\$ 1,118,656</u>	<u>\$ 987,922</u>	<u>\$ 2,106,578</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances-Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$ (460,217)

Amounts reported for governmental activities in the statement of activities  
 are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 875,378	
Depreciation expense	<u>(446,860)</u>	428,518

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 102,500

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		(30,094)
------------------	--	----------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(1,637)

Change in net assets of governmental activities \$ 39,070

See notes to financial statements and Independent Auditor's Report.

WASHINGTON SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Fund  
June 30, 2004

Exhibit G

	<u>School Nutrition</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 21,836
Inventories	14,926
Due from other governments	28,733
Capital assets, net of accumulated depreciation	<u>32,952</u>
Total assets	<u>98,447</u>
<b>LIABILITIES</b>	
Salaries and benefits payable	<u>28,956</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	32,952
Unreserved retained earnings	<u>36,539</u>
Total net assets	<u>\$ 69,491</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended June 30, 2004

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 272,003</u>
Operating expenses	
Non-instructional programs	
Salaries	206,740
Benefits	40,114
Purchased services	7,392
Supplies	317,561
Depreciation	<u>5,564</u>
Total operating expenses	<u>577,371</u>
Operating loss	<u>(305,368)</u>
Non-operating revenue	
Interest income	789
State sources	9,248
Federal sources	<u>274,123</u>
Total non-operating revenue	<u>284,160</u>
Change in net assets	(21,208)
Net assets, beginning of year	<u>90,699</u>
Net assets, end of year	<u>\$ 69,491</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2004

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 268,469
Cash payments to employees for services	(226,486)
Cash payments to suppliers for goods and services	<u>(291,834)</u>
Net cash used in operating activities	<u>(249,851)</u>
Cash flows from non-capital financing activities	
State grants received	9,248
Federal grants received	<u>215,630</u>
Net cash provided by non-capital financing activities	<u>224,878</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(3,534)</u>
Cash flows from investing activities	
Interest on investments	<u>789</u>
Net decrease in cash and cash equivalents	(27,718)
Cash and cash equivalents, beginning of year	<u>74,554</u>
Cash and cash equivalents, end of year	<u>\$ 46,836</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (305,368)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,564
Commodities used	29,759
(Increase) decrease in inventories	(174)
Increase in due to other funds	25,000
(Decrease) in salaries and benefits payable	<u>(4,632)</u>
Net cash used in operating activities	<u>\$ (249,851)</u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2004, the District received \$29,759 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
<b>Assets</b>	
Cash and pooled investments	\$ 959,137
<b>Liabilities</b>	<u>          -</u>
<b>Net assets</b>	
Reserved for scholarships	<u>\$ 959,137</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2004

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 44,745
Interest	<u>41,500</u>
Total additions	86,245
 Deductions	
Support services	
Scholarships awarded	<u>40,975</u>
 Change in net assets	 45,270
 Net assets, beginning of year	 <u>913,867</u>
 Net assets, end of year	 <u>\$ 959,137</u>

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2004

**Note 1. Summary of Significant Accounting Policies**

The Washington Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Washington, Iowa, and the agricultural territory in Washington and Jefferson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Washington Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Washington Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports no major proprietary funds.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and early retirement are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$1,500
Buildings	\$1,500
Improvements other than buildings	\$1,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	40 years
Improvements to buildings	15 years
Furniture and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, District expenditures did not exceed the amounts budgeted in any of the four functional areas or the General fund unspent authorized budget.

#### **Note 2. Cash and Pooled Investments**

The District's deposits at June 30, 2004, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$903 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

**Note 3. Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise Fund School Nutrition	\$ 25,000

The School Nutrition Fund is repaying the General Fund for salaries and benefits paid by the General Fund for food service employees. The balance will be repaid during the fiscal year ending June 30, 2005.

**Note 4. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 43,280
Debt Service	Physical Plant and Equipment Levy	<u>67,563</u>
Total		<u>\$ 110,843</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**Note 5. Iowa Schools Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2003-04B	1/30/04	1/28/05	\$ 611,134	\$ 3,325	\$ 607,000	\$ 5,041	\$ 2,926
2004-05A	6/30/04	6/30/05	<u>1,051,669</u>	<u>-</u>	<u>1,046,000</u>	<u>-</u>	<u>14,508</u>
			<u>\$ 1,662,803</u>	<u>\$ 3,325</u>	<u>\$ 1,653,000</u>	<u>\$ 5,041</u>	<u>\$ 17,434</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

<u>Series</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2003-04A	\$ -	\$ 1,007,000	\$ 1,007,000	\$ -

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	2.6030%
2003-04B	2.000%	1.3920%
2004-05A	3.000%	2.4600%

#### Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 544,857	\$ -	\$ -	\$ 544,857
Land improvements	808,354	-	-	808,354
Total capital assets, not being depreciated	<u>1,353,211</u>	<u>-</u>	<u>-</u>	<u>1,353,211</u>
Capital assets being depreciated:				
Buildings and improvements	2,952,462	323,006	-	3,275,468
Furniture and equipment	<u>1,732,753</u>	<u>552,372</u>	<u>(19,903)</u>	<u>2,265,222</u>
Total capital assets being depreciated	<u>4,685,215</u>	<u>875,378</u>	<u>(19,903)</u>	<u>5,540,690</u>

Less accumulated depreciation for:				
Buildings and improvements	1,305,074	140,857	-	1,445,931
Furniture and equipment	<u>979,084</u>	<u>306,003</u>	<u>(19,903)</u>	<u>1,265,184</u>
Total accumulated depreciation	<u>2,284,158</u>	<u>446,860</u>	<u>(19,903)</u>	<u>2,711,115</u>
Total capital assets being depreciated, net	<u>2,401,057</u>	<u>428,518</u>	<u>-</u>	<u>2,829,575</u>
Governmental activities capital assets, net	<u>\$ 3,754,268</u>	<u>\$ 428,518</u>	<u>\$ -</u>	<u>\$ 4,182,786</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 75,774	\$ 3,534	\$ -	\$ 79,308
Less accumulated depreciation	<u>40,792</u>	<u>5,564</u>	<u>-</u>	<u>46,356</u>
Business-type activities capital assets, net	<u>\$ 34,982</u>	<u>\$ (2,030)</u>	<u>\$ -</u>	<u>\$ 32,952</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 143,691
Special	17,200
Other	17,505
Support services	
Student	7,891
Instructional staff	30,787
Transportation	85,109
Unallocated	<u>144,677</u>
Total governmental activities depreciation expense	<u>\$ 446,860</u>

**Business-type activities**

Food services	<u>\$ 5,564</u>
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**Note 7. Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
QZAB bonds	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
Notes payable	205,000	-	(102,500)	102,500	102,500
Early retirement	<u>206,315</u>	<u>132,776</u>	<u>(102,682)</u>	<u>236,409</u>	<u>120,016</u>
Totals	<u>\$ 1,411,315</u>	<u>\$ 132,776</u>	<u>\$(205,182)</u>	<u>\$ 1,338,909</u>	<u>\$ 222,516</u>

### Early retirement

District employees who have 15 years of continuous service to the District and are over age 55 are eligible for early retirement benefits. Employees can also bring in five years from K-12 experience with other districts at a rate of 1:2. Therefore, 10 years of experience elsewhere would equal 5 years for the early retirement calculation. The amount of early retirement pay for certified employees is equal to sixty-five percent of the employee's base salary. The amount of early retirement pay for non-certified employees is equal to sixty-five percent of the difference between the employee's salary and the amount of the annual pay if the federal minimum wage was used instead of the employee's current hourly rate.

The employee must notify the Board by March first to receive the early retirement benefit. For both certified and non-certified employees, the cash payout amount cannot exceed \$28,000 per employee. At June 30, 2004, the maximum accumulated retirement pay was \$236,409 and 22 individuals were receiving the benefit.

### Capital Loan Notes

On July 30, 1994 the District entered into a \$400,000 capital loan agreement with Washington State Bank. The purpose of the loan was for financing energy-conservation and energy-management improvements. The final payment of \$40,000, plus \$1,100 of interest will be paid during the year ending June 30, 2005.

On April 18, 2003 the District entered into a capital loan agreement with Washington State Bank for \$250,000 for the purchase of five buses. The final payment of \$62,500, plus \$2,563 of interest, will be paid during the year ending June 30, 2005.

### Qualified Zone and Academy Bonds (QZAB)

The Qualified Zone and Academy Bonds (QZAB) were received by the District on January 24, 2002. These bonds were issued as capital loan notes and will mature on January 24, 2012. The District received \$1,000,000 to remodel school facilities. The District deposits \$86,130 annually into an escrow account, which is held by Bankers Trust on behalf of the District. Funds in the escrow account will be used to repay the bonds when they mature. The escrow account earns interest at 3.25 percent.

### **Note 8. Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$504,067, \$474,644 and \$465,716 respectively, equal to the required contributions for each year.

**Note 9. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$509,219 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 11. Deficit Balances**

The District's Student Activity Fund had several accounts with deficit balances at June 30, 2004.

Required Supplementary Information

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Receipts, Disbursements and  
 Changes in Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>			
Receipts						
Local sources	\$ 5,750,014	\$ 269,258	\$ 6,019,272	\$ 6,192,470	\$ 6,192,470	\$ (173,198)
Intermediate sources	-	-	-	28,000	28,000	(28,000)
State sources	7,381,936	9,248	7,391,184	7,634,701	7,928,321	(537,137)
Federal sources	<u>1,380,235</u>	<u>215,630</u>	<u>1,595,865</u>	<u>1,655,000</u>	<u>1,655,000</u>	<u>(59,135)</u>
Total receipts	<u>14,512,185</u>	<u>494,136</u>	<u>15,006,321</u>	<u>15,510,171</u>	<u>15,803,791</u>	<u>(797,470)</u>
Disbursements						
Instruction	8,425,135	-	8,425,135	9,047,655	9,047,655	622,520
Support services	5,220,816	-	5,220,816	5,456,380	5,750,000	529,184
Non-instructional programs	-	521,854	521,854	545,376	545,376	23,522
Other expenditures	<u>1,183,738</u>	<u>-</u>	<u>1,183,738</u>	<u>906,649</u>	<u>1,250,000</u>	<u>66,262</u>
Total disbursements	<u>14,829,689</u>	<u>521,854</u>	<u>15,351,543</u>	<u>15,956,060</u>	<u>16,593,031</u>	<u>1,241,488</u>
Excess of receipts over disbursements	(317,504)	(27,718)	(345,222)	(445,889)	(789,240)	444,018
Other financing sources, net	<u>1,503</u>	<u>-</u>	<u>1,503</u>	<u>-</u>	<u>-</u>	<u>1,503</u>
Excess of receipts and other financing sources over disbursements	(316,001)	(27,718)	(343,719)	(445,889)	(789,240)	445,521
Balance, beginning of year	<u>3,493,144</u>	<u>74,554</u>	<u>3,567,698</u>	<u>4,398,071</u>	<u>4,398,071</u>	<u>(830,373)</u>
Balance, end of year	<u>\$ 3,177,143</u>	<u>\$ 46,836</u>	<u>\$ 3,223,979</u>	<u>\$ 3,952,182</u>	<u>\$ 3,608,831</u>	<u>\$ (384,852)</u>

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 For the Year Ended June 30, 2004

	Governmental Fund Types		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
Revenues	\$ 14,512,185	\$ (11,947)	\$ 14,500,238
Expenditures	<u>14,829,689</u>	<u>132,269</u>	<u>14,961,958</u>
Net	(317,504)	(144,216)	(461,720)
Other financing sources	1,503	-	1,503
Beginning fund balances	<u>3,493,144</u>	<u>(926,349)</u>	<u>2,566,795</u>
Ending fund balances	<u>\$ 3,177,143</u>	<u>\$ (1,070,565)</u>	<u>\$ 2,106,578</u>

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 494,136	\$ 62,027	\$ 556,163
Expenditures	<u>521,854</u>	<u>55,517</u>	<u>577,371</u>
Net	(27,718)	6,510	(21,208)
Beginning fund balances	<u>74,554</u>	<u>16,145</u>	<u>90,699</u>
Ending fund balances	<u>\$ 46,836</u>	<u>\$ 22,655</u>	<u>\$ 69,491</u>

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$636,971.

During the year ended June 30, 2004, District expenditures did not exceed the amounts budgeted in any of the four functional areas or the General fund unspent authorized budget.

Other Supplementary Information

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 June 30, 2004

Schedule 1

	Special Revenue			
	Managemen	Student	Physical Plant and Equipment	Total
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled investments				
Cash held by fiscal agent	\$ -	\$ -	\$ 175,098	\$ 175,098
Other	318,516	156,351	328,591	803,458
Receivables				
Property tax				
Current year delinquent	2,937	-	6,429	9,366
Succeeding year	200,000	-	424,861	624,861
Total assets	<u>\$ 521,453</u>	<u>\$ 156,351</u>	<u>\$ 934,979</u>	<u>\$ 1,612,783</u>
 <b>LIABILITIES AND FUND EQUITY</b>				
Liabilities				
Deferred revenue				
Succeeding year property tax	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 424,861</u>	<u>\$ 624,861</u>
 Fund Equity				
Reserved for debt payment	-	-	175,098	175,098
Unreserved fund balances	321,453	156,351	335,020	812,824
Total fund equity	<u>321,453</u>	<u>156,351</u>	<u>510,118</u>	<u>987,922</u>
Total liabilities and fund equity	<u>\$ 521,453</u>	<u>\$ 156,351</u>	<u>\$ 934,979</u>	<u>\$ 1,612,783</u>

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2004

Schedule 2

	Special Revenue				
	Management	Student	Physical Plant and Equipment	Debt	Total
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
Revenues					
Local sources					
Local taxes	\$ 197,948	\$ -	\$ 436,394	\$ -	\$ 634,342
Other	4,883	336,753	14,757	-	356,393
State sources	188	-	413	-	601
Federal sources	-	-	107,250	-	107,250
Total revenues	203,019	336,753	558,814	-	1,098,586
Expenditures					
Current					
Instruction					
Regular instruction	146,054	-	-	-	146,054
Other instruction	-	326,211	-	-	326,211
Support services					
Administration services	43,220	-	-	-	43,220
Operation and maintenance of plant services	21,987	-	-	-	21,987
Transportation services	42,693	-	295,613	-	338,306

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2004

Schedule 2

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Expenditures (continued)					
Other expenditures					
Facilities acquisition	\$ -	\$ -	\$ 563,676	\$ -	\$ 563,676
Long-term debt					
Principal	-	-	-	102,500	102,500
Interest and fiscal charges	-	-	-	8,343	8,343
Total expenditures	253,954	326,211	859,289	110,843	1,550,297
Excess (deficiency) of revenues over (under) expenditures	(50,935)	10,542	(300,475)	(110,843)	(451,711)
Other financing sources (uses)					
Interfund operating transfers	-	-	(67,563)	110,843	43,280
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(50,935)	10,542	(368,038)	-	(408,431)
Fund balances, beginning of year	372,388	145,809	878,156	-	1,396,353
Fund balances, end of year	\$ 321,453	\$ 156,351	\$ 510,118	\$ -	\$ 987,922

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intrafund Transfers</u>	Balance, End of <u>Year</u>
Student activities	\$ 59,874	\$ 2,095	\$ 13,931	\$ -	\$ 48,038
Assure Center fundraiser	317	424	590	-	151
CO pop fund	242	551	431	-	362
Special ed registration fees	1,655	-	-	-	1,655
Special Olympics	505	100	213	-	392
Stewart library	2,936	4,357	2,314	-	4,979
Stewart playground fund	3,134	-	-	-	3,134
Adults Caring for Children	7,125	4,326	-	-	11,451
Stewart pop fund	1,258	5,136	5,277	-	1,117
HS general concessions	(2,369)	14,769	13,825	-	(1,425)
HS popcorn	3,474	1,020	2,518	-	1,976
HS fund raiser	360	2,577	2,344	-	593
HS candy sales	2,238	-	-	-	2,238
HS respect	212	-	212	-	-
HS TATU	774	1,897	2,594	-	77
Renaissance	1,079	3,333	2,963	-	1,449
HS drama	4,124	3,788	4,734	-	3,178
HS La Onda	571	147	247	-	471
HS SADD	555	1,785	753	-	1,587
HS speech activities	720	249	1,166	-	(197)
HS vocal music	1,446	20,895	21,239	-	1,102
HS band uniforms	(126)	465	306	-	33
HS instrumental music	(12,301)	13,602	-	-	1,301
HS annual	2,714	16,665	15,536	-	3,843
HS newspaper	5,391	12,995	16,051	-	2,335
HS art serv club	625	6,188	6,070	-	743
HS cheerleaders	3,504	11,072	11,137	-	3,439
HS drill team	680	1,020	758	-	942
HS FFA	1,805	16,051	16,376	-	1,480
HS FHA	67	207	156	-	118
HS FOFES	128	-	-	-	128

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
VOW	\$ 959	\$ -	\$ 90	\$ -	\$ 869
HS NHS	114	337	-	-	451
HS office ed-BPA	1,635	8,371	8,403	-	1,603
HS science club	632	265	65	-	832
HS student congress	2,274	13,117	13,786	-	1,605
HS Earth book	(18)	754	1,034	-	(298)
HS Student recognition	-	886	530	-	356
HS drafting resale	2	-	2	-	-
Class of		-	-	-	-
2004	3,443	971	3,661	-	753
2005	1,170	529	-	-	1,699
2002	251	1,133	199	-	1,185
2003	1,431	1,600	200	-	2,831
HS athletic director	613	20,265	7,676	-	13,202
HS activity tickets	228	10,761	10,168	-	821
Cross country	176	1,182	1,358	-	-
HS boys' basketball	2,000	4,652	5,652	-	1,000
HS football	1,481	12,916	12,397	-	2,000
HS baseball	867	3,381	6,468	-	(2,220)
HS boys' track	(5,908)	14,946	9,038	-	-
HS boys' golf	107	981	1,088	-	-
HS soccer	53	999	2,888	-	(1,836)
HS wrestling	(1,572)	5,852	4,280	-	-
HS girls' basketball	-	13,774	11,170	-	2,604
HS volleyball	-	3,581	3,500	-	81
HS softball	1,611	5,243	4,594	-	2,260
HS girls' track	62	1,765	1,376	-	451
HS girls' golf	-	979	979	-	-
JH activity	4,155	1,763	4,866	-	1,052
JH concessions	4,997	11,639	13,508	-	3,128
JH fund raising	23,687	40,794	45,130	-	19,351
JH special travel	258	-	50	-	208

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
JH speech	\$ -	\$ 465	\$ -	\$ -	\$ 465
JH student congress	1,799	3,674	2,326	-	3,147
JH vocal music	-	497	350	-	147
JH instrumental music	-	357	349	-	8
JH outdoor classroom	6	-	80	-	(74)
JH Odyssey	-	-	453	-	(453)
JH one-act plays	-	530	1,111	-	(581)
JH student awards	(6)	-	480	-	(486)
JH cheerleaders	340	2,764	1,358	-	1,746
9th boys' basketball	200	839	2,248	-	(1,209)
8th boys' basketball	741	662	1,132	-	271
7th boys' basketball	588	901	1,068	-	421
JH cross country	-	236	-	-	236
9th football	464	2,010	2,177	-	297
8th football	738	949	1,142	-	545
7th football	514	784	1,050	-	248
7th & 8th boys' track	362	409	876	-	(105)
7th & 8th wrestling	(121)	419	361	-	(63)
9th girls' basketball	367	1,128	2,097	-	(602)
8th girls' basketball	430	456	943	-	(57)
7th girls' basketball	316	695	773	-	238
7th & 8th volleyball	(149)	1,196	1,141	-	(94)
7th & 8th girls' track	202	326	751	-	(223)
JH bio tech conf	1,645	-	-	-	1,645
JH drug-free/Quest	206	-	-	-	206
	<u>\$ 146,067</u>	<u>\$ 348,447</u>	<u>\$ 338,163</u>	<u>\$ -</u>	<u>\$ 156,351</u>

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 4

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 4,878,498	\$ 4,808,079	\$ 4,656,900	\$ 4,431,291
Tuition	422,320	360,432	312,229	302,267
Other	470,914	577,838	581,124	589,808
Intermediate sources	-	-	-	14,904
State sources	7,394,727	7,329,734	6,835,068	6,787,413
Federal sources	1,333,779	1,123,747	754,522	487,005
Total revenues	<u>\$ 14,500,238</u>	<u>\$ 14,199,830</u>	<u>\$ 13,139,843</u>	<u>\$ 12,612,688</u>
Expenditures				
Instruction				
Regular instruction	5,633,256	5,345,880	5,347,191	4,896,543
Special instruction	1,661,340	1,595,268	1,421,891	1,366,613
Other instruction	1,103,684	1,113,135	1,151,656	1,222,212
Support services				
Student services	1,356,971	1,329,296	1,142,072	838,318
Instructional staff services	1,054,190	904,162	531,992	485,505
Administration services	1,209,895	1,150,167	1,201,207	981,540
Operation and maintenance of plant services	1,039,827	919,922	845,039	1,065,930
Transportation services	719,057	389,525	528,598	519,586
Central support services	-	-	86,988	170,122
Other expenditures				
Facilities acquisition	563,676	572,112	98,979	77,182
Long-term debt				
Principal	102,500	102,500	247,500	305,325
Interest and other charges	8,343	12,920	26,265	30,232
AEA flowthrough	509,219	528,308	510,044	513,226
Total expenditures	<u>\$ 14,961,958</u>	<u>\$ 13,963,195</u>	<u>\$ 13,139,422</u>	<u>\$ 12,472,334</u>

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2004

Schedule 5

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
<b>Direct</b>			
<b>U.S. Department of Education</b>			
Grants to Reduce Alcohol Abuse	84.184A	FY04	\$ 194,940
21st Century Communities	84.287B	FY04	258,334
Teaching American History Grant	84.215	FY04	333,229
Qualified Zone Academy Bonds	xx.xxx	FY03	<u>642,930</u>
Total direct			<u>1,429,433</u>
<b>Indirect</b>			
<b>U.S. Department of Agriculture</b>			
Iowa Department of Education			
Food distribution (non-cash)	10.550	FY04	29,759
School Nutrition Cluster Programs			
National School Breakfast Program	10.553	FY04	50,543
National School Lunch Program	10.555	FY04	<u>196,728</u>
Total Department of Agriculture			<u>277,030</u>
<b>U.S. Department of Justice</b>			
Washington County			
Safe and Drug-free Schools and Communities	16.729	FY04	<u>25,985</u>
Total U.S. Department of Justice			<u>25,985</u>
<b>U.S. Department of Education</b>			
Iowa Department of Education			
Title I Grants to Local Educational Agencies			
Innovative Education Program Strategies	84.010	FY04	189,622
Title VI Program	84.298	FY04	8,905
Grants for State Assessments & Related Activities	84.369	FY04	10,242
Safe and Drug-free Schools and Communities	84.186	FY04	7,051
Title IIA - Federal Teacher Quality Program	84.367	FY04	74,233
Fund for the Improvement of Education-Construction	84.215	FY04	<u>107,250</u>
Total Iowa Department of Education			<u>397,303</u>
Grant Wood Area Education Agency			
Carl D. Perkins Vocational & Applied Tech.	84.048	FY04	22,765
Special Education-Grants to States-Part B	84.027	FY04	68,345
Special Education-Grants to States-Success 4	84.027	FY04	<u>3,899</u>
Total Grant Wood Area Education Agency			<u>95,009</u>
Total U.S. Department of Education			<u>492,312</u>
Total indirect			<u>795,327</u>
Total federal awards			<u>\$2,224,760</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Washington Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

## KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761  
563-264-1385

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education  
Washington Community School District  
Washington, Iowa

I have audited the financial statements of the Washington Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated August 13, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Washington Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have not been resolved. Current year statutory comments are detailed as follows:

1. Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
2. Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted.
3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - No business transactions between the District and District officials or employees were noted.
6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval, which had not been approved by the Board.
8. Certified Enrollment - I noted no variances in the basic enrollment data certified to the Department of Education.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The fiscal Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District's Student Activity Fund had several deficit accounts at June 30, 2004.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response - We will review these accounts and investigate alternatives to eliminate these deficits.

Conclusion - Response accepted.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Washington Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Washington Community School District's ability to record, process, summarize and report financial data consistent with the assertions of

management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the lack of segregation of duties is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Washington Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Washington Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC  
August 13, 2004

# KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100  
Muscatine, Iowa 52761  
563-264-1385

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Education  
Washington Community School District  
Washington, Iowa

### Compliance

I have audited the compliance of Washington Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Washington Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Washington Community School District's management. My responsibility is to express an opinion on Washington Community School District's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington Community School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Washington Community School District's compliance with those requirements.

In my opinion Washington Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

## Internal Control Over Compliance

The management of Washington Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Washington Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Washington Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Washington Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
August 13, 2004

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

**Part I. Summary of the Independent Auditor's Results**

1. An unqualified opinion was issued on the financial statements.
2. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
3. The audit did not disclose any noncompliance which is material to the financial statements.
4. A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed an audit finding, which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
  - CFDA Number unknown Qualified Zone and Academy Bonds
  - CFDA Number 84.215 Teaching American History Grant
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Lisbon Community School District did not qualify as a low-risk auditee.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

**Part II. Findings Related to the General Purpose Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted

REPORTABLE CONDITIONS

04-II-A Segregation of Duties - During my review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximized the accuracy of the District's financial statements. I noted that the work performed by the Business Manager was not reviewed by another employee.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and plan to make the necessary changes, as we deem necessary, to improve internal control.

Conclusion - Response accepted.

04-II-B Review of Board Policies - I noted that the District has not reviewed the Board policies for several years. Board policies need to be reviewed and revised, if necessary, at least every five years.

Recommendation - The District should review its Board policies every five years.

Response - We have contracted with the Iowa Association of School Boards to perform a review of our board policies.

Conclusion - Response accepted.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2004

**Part III. Findings and Questioned Costs for Federal Awards**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

MATERIAL WEAKNESSES

There were no material weaknesses relating to federal awards noted.

WASHINGTON COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2004

This audit was performed by

Kay Chapman, CPA